

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BFN3084 – INTERNATIONAL FINANCE

(All sections / Groups)

24 FEBRUARY 2017

9.00 A.M. - 11.00 A.M.

(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 3 pages. There are a total of 4 questions.
2. Answer ALL questions.
3. Marks are shown at the end of each question.

Answer all questions in the answer booklet provided.

QUESTION 1 (25 marks)

- (A) Describe purchasing power parity (PPP). If the spot rate between U.S. and U.K. is \$1.27/£, calculate the new spot rate based on PPP. The inflation rates in U.S. and U.K. are 2% and 7% respectively. (10 marks)
- (B) Company X wants to borrow \$10,000,000 floating for 5 years; company Y wants to borrow \$10,000,000 fixed for 5 years. Their external borrowing opportunities are shown below:

	Fixed-Rate Borrowing Cost	Floating-Rate Borrowing Cost
Company X	10%	LIBOR
Company Y	12%	LIBOR + 1.5%

A swap bank proposes the following interest only swap: X will pay the swap bank annual payments on \$10,000,000 with the coupon rate of LIBOR – 0.15%; in exchange the swap bank will pay to company X interest payments on \$10,000,000 at a fixed rate of 9.90%. Calculate how much company X can save.

(10 marks)

- (C) Discuss the two main reasons for a party enters into a currency swap.

(5 marks)

QUESTION 2 (25 marks)

- (A) Assume the following information:

U.S. deposit rate for 1 year	=	11%
U.S. borrowing rate for 1 year	=	12%
New Zealand deposit rate for 1 year	=	8%
New Zealand borrowing rate for 1 year	=	10%
New Zealand dollar forward rate for 1 year	=	\$0.40/NZ\$
New Zealand dollar spot rate	=	\$0.39/NZ\$

Also assume that a U.S. exporter denominates its New Zealand exports in NZ\$ and expects to receive NZ\$600,000 in 1 year. You are a consultant for this firm. Using the information above, calculate the approximate value of these exports in 1 year in U.S. dollars given that the firm executes a money market hedge.

(12 marks)

Continued...

- (B) Discuss why a purely domestic firm that sources and sells only domestically still faces exchange rate risk. (6 marks)
- (C) Joyful Incorporation is a Malaysian-based MNC that obtains 10 percent of its supplies from U.S. manufacturers. Sixty percent of its revenues are due to exports to U.S. where its product is invoiced in dollar. Explain how Joyful can attempt to reduce its economic exposure to exchange rate fluctuations in the dollar. (7 marks)

QUESTION 3 (25 marks)

- (A) Discuss the process of bringing a new international bond issue to market. (12 marks)
- (B) As an investor, discuss two factors you would consider before investing in the emerging stock market of a developing country. (8 marks)
- (C) What is the effect may be faced by multinational companies from the consequences of foreign equity ownership restrictions? (5 marks)

QUESTION 4 (25 marks)

- (A) A Korean multinational company manufactures motorcycles spare parts and has affiliates in Thailand, China and Taiwan.

Receipts by:	Disbursement by:				TOTAL RECEIPTS (\$000)
	Korea	Thailand	China	Taiwan	
Korea	-	45	50	75	170
Thailand	35	-	25	55	115
China	25	35	-	45	105
Taiwan	55	45	35	-	135
TOTAL DISBURSEMENT (\$000)	115	125	110	175	525

Show the original, bilateral and multilateral netting (in separate figure) for this transaction.

(19 marks)

Continued...

(B) Discuss the three basic documents in a typical foreign trade transaction.

(6 marks)

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